

The Tortoise and the hare

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Known Unknowns

Individual investors may face many “known unknowns”—that is to say, things that they know they don’t know. The UK’s referendum on EU membership is one of them, confronting people with a large degree of uncertainty.

But it’s not necessary to “make the right call” on the referendum or its consequences to be a successful investor. Our approach is to trust the market to price securities fairly; to take account of broad expectations of future returns.

In arguing for the status quo, the “remain” campaign is able to point out familiar characteristics of membership.

The “out” campaign, however, is based on intangibles that can only be resolved after the result of the referendum is known. It is impossible for any individual to predict the implications of these unknowns with certainty.

But this is no cause for concern. While the referendum is imminent and its implications are potentially vast and unpredictable, it is not necessary for individual investors to make any judgement calls on the outcome. We have faced many uncertainties in the past—general elections, market crises, recessions, wars—and throughout all of them, the market has done its job of aggregating participants’ views about expected returns and priced assets accordingly.

And while these events have caused uncertainty, volatility and short-term losses and gains, none of them has altered the expectation that stocks provide a good long-term return in real terms.*

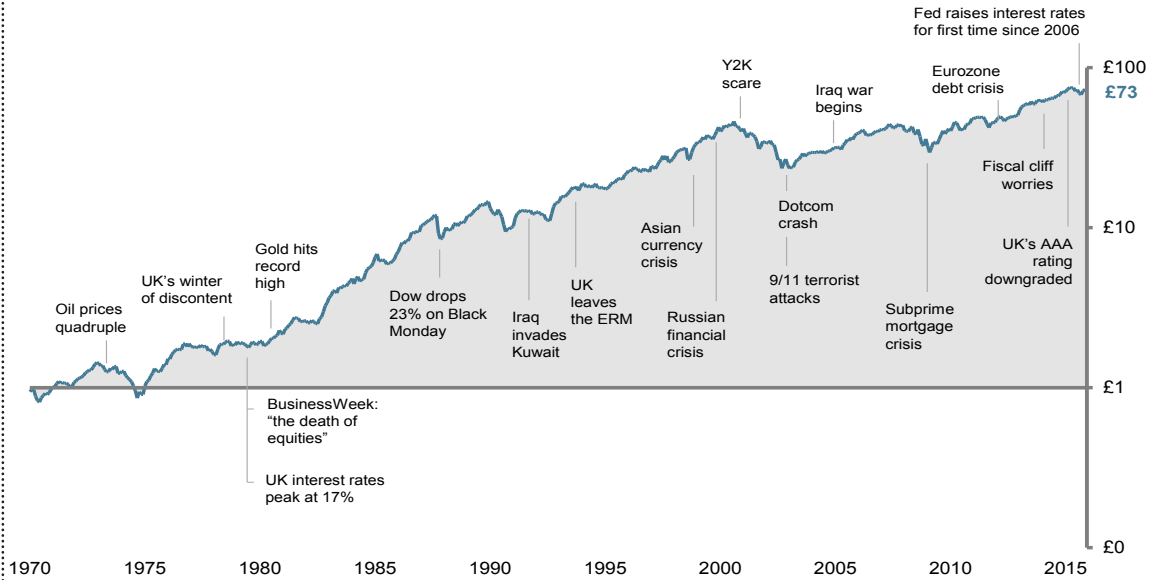
We have a global view of investing, and we know that the market is very good at processing information that is relevant to future returns. Because of this view, we don’t attempt to second-guess the market. We manage well-diversified portfolios that do not rely on the outcome of individual events or decisions to target the expected long-term return.

*The chart illustrates the long-term positive performance of world markets (1970–2015), through wars, crises and slumps.

Known Unknowns

Markets Have Rewarded Discipline

Growth of a pound - MSCI World Index, 1970- 2015



These events are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Past performance is no guarantee of future results. MSCI data © MSCI 2016, all rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. In GBP.

Indicators

GDP Growth Projections (%)			
	2014	2015	2016
US	2.4	2.5	2.6
UK	2.9	2.2	2.2
Eurozone	0.9	1.5	1.7
Japan	0.0	0.6	1.0

Source: IMF, World Economic Outlook, January 2016

Inflation Projections (%)			
	2014	2015	2016
US	1.6	0.1	1.1
UK	1.5	0.1	1.5
Eurozone	0.4	0.2	1.0
Japan	2.7	0.7	0.4

Source: IMF, World Economic Outlook, October 2015

Equity Summary (%)							
Index	2016 Q1	2015	2014	2013	2012	2011	2010
S&P 500 TR USD	1.3	1.4	13.7	32.4	16.0	2.1	15.1
Russell 3000 Value TR USD	1.6	-4.1	12.7	32.7	17.5	-0.1	16.2
Russell 2000 TR USD	-1.5	-4.4	4.9	38.8	16.3	-4.2	26.9
MSCI EAFE NR USD	-3.0	-0.8	-4.9	22.8	17.3	-12.1	7.8
MSCI EAFE Value NR USD	-4.0	-5.7	-5.4	23.0	17.7	-12.2	3.2
MSCI EAFE Small Cap NR USD	-0.6	9.6	-4.9	29.3	20.0	-15.9	22.0
MSCI EM NR USD	5.7	-14.9	-2.2	-2.6	18.2	-18.4	18.9
MSCI ACWI NR USD	0.2	-2.4	4.2	22.8	16.1	-7.3	12.7
STOXX Europe 600 NR EUR	-7.2	9.6	7.2	20.8	18.2	-8.6	11.6
FTSE AllSh TR GBP	-0.4	1.0	1.2	20.8	12.3	-3.5	14.5

Source: Morningstar as of 31st March 2016

Fixed Income Summary							
Index	2016 YTD	2015	2014	2013	2012	2011	2010
Citi World Government Bond Index USD	7.1	-3.6	-0.5	-4.0	1.6	6.4	5.2
Markit iBoxx Liquid Investment Grade TR	4.7	-0.7	8.7	-2.4	11.8	9.1	9.4
BofAML Global High Yield TR USD	3.9	-4.2	-0.1	8.0	19.3	2.6	13.9
JPM Emerging Market Bond Index GD TR USD	5.0	1.2	7.4	-5.3	17.4	7.3	12.2

Source: Morningstar as of 31st March 2016

Risk Warnings

Past performance is not a reliable indicator of future results.

The illustrations are in US Dollars unless otherwise stated. Currency fluctuations may increase or decrease the returns of any investment.

There can be no guarantee or assurance that a client's portfolio will not incur a loss over any particular time period.

Fees and charges do not apply in respect of any index, indices are unmanaged, do not incur fees and cannot be invested in directly.

Pro forma results such as those shown do not represent actual trading; returns will be affected by advisor and fund management fees, trading costs, and other applicable charges.

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Please note that not all clients have exactly the same portfolios or the same investment vehicles. Depending on a client's risk appetite, time frame, implementation strategy, currency reference or other reasons, their portfolio may differ from our Strategic Allocation.

Indicators

Foreign Exchange			
	31/12/2015	31/03/2016	YTD
USD/JPY	120.3	112.4	-6.6%
GBP/USD	1.47	1.44	-2.5%
GBP/JPY	177.3	161.5	-8.9%
GBP/EUR	1.36	1.26	-7.0%
EUR/USD	1.09	1.14	4.9%
USD/CHF	1.00	0.96	-4.3%

Source: FT.com as of 31st March 2016

Real Assets (%)							
Index	2016 YTD	2015	2014	2013	2012	2011	2010
S&P Global REIT TR USD	7.2	0.6	22.8	2.8	23.7	1.7	23.4
Bloomberg Commodity TR USD	0.4	-24.7	-17.0	-9.5	-1.1	-13.3	16.8
LBMA Gold Price PM USD	16.7	-12.1	0.1	-27.3	8.3	8.9	29.2
Bloomberg Sub WTI Crude Oil TR USD	-11.5	-44.3	-41.7	6.8	-11.8	-3.6	3.8

Source: Morningstar as of 31st March

Economic Indicators				
Index	Unemployment rate (%)	Current A/C Balance*	Budget Balance*	Industrial Production (%) **
US	4.9	-2.6	-2.5	-1.0
UK	5.1	-4.2	-3.6	0.2
Euro Area	10.3	2.8	-1.9	2.8
Japan	3.3	3.5	-6.2	-1.5

*% of GDP 2016 estimate

**change on 1 year ago

Source: Economist (31st March 2016)

Interest rates (%) - Government bonds				
	1 month	3 month	2 Years	10 years
US	0.18	0.21	0.76	1.80
UK	0.40	0.47	0.46	1.44
Euro Area (DE)	-0.57	-0.56	-0.48	0.15
Japan	-	-0.07	-0.21	-0.06

Source: FT.com as of 31st March 2016

Volatility Index (%)				
Index	Current	1 year change	52 week high	52 week low
VIX	13.9	-11.6%	32.0	12.2
VDAX	20.8	11.8%	32.6	16.7

Source: FT.com as of 31st March 2016

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Having spent a combined total of over twenty years at one of the largest US banks looking after the needs of expatriate American clients, the MASECO partners identified a gap in the provision of sound, practical and creative advice for US expatriate and inpatriate clients from the UK.

We decided to use the expertise we gained at large institutions to create a partnership that bridges this gap and provides a first class service within a wealth management firm – without the often conflicting demands of ownership by a large institution.

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Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market. Investors should be careful to consider these risks alongside their individual circumstances, objectives and risk tolerance before investing in high yield bonds. High yield bonds should comprise only a limited portion of a balanced portfolio.

Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

Alternative investments referenced in this report are speculative and entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns on transferring interests in the fund, potential lack of diversification, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds and advisor risk.

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The prices of real assets (for example, precious metals) tend to fluctuate widely and unpredictably, and have historically experienced periods of flat or declining prices. Prices are affected by global supply and demand, investors' expectations with respect to the rate of inflation, currency exchange rates, interest rates, investment and trading activities of hedge funds and commodity funds, and global or regional political, economic or financial events and situations.

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Investing in smaller companies involves risks not associated with more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Interest on municipal bonds is generally exempt from US federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax exemption applies if securities are issued within one's state of residence; if applicable, local exemption applies for issues within one's city of residence.

The initial interest rate on an inflation-linked security may be lower than that of a fixed rate security of the same maturity because investors expect to receive additional income due to future increases in CPI. However, there can be no assurance that these increases in CPI will occur.

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